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C O N F I D E N T I A L ROME 1965

SUBJ: CIVAIR: STATUS OF BILATERAL NEGOTIATIONS

REF: STATE 32423

1. IN DISCUSSION OF RECENT INFORMAL SANTINI TALKS IN WASHINGTON WITH SERAFINI OF FOREIGN OFFICE, EMBOFFS WERE TOLD THAT ITALIANS HAVE NOW DESPAIRED OF REACHING NEGOTIATED SETTLEMENT IN PRESENT CIRCUMSTANCES AND THAT WORKING LEVEL IS RECOMMENDED SUSPENSION OF ALL U.S. BEYOND RIGHTS EFFECTIVE JUNE 1. THIS RECOMMENDATION HAS APPARENTLY BEEN APPROVED BY TRANSPORT MINISTER AND DIRECTOR GENERAL FOR ECON OF FOREIGN OFFICE AND BEEN FORWARDED TO NENNI, WHO IS BEING ASKED TO RAISE MATTER DURING HIS VISIT TO WASHINGTON NEXT WEEK. FINAL APPROVAL OF THIS COURSE WILL REQUIRE PRIOR CONSIDERATION BY COUNCIL OF MINISTERS.

2. WORKING LEVEL ON ITALIAN SIDE FREELY EXPRESSES ITS CONVICTION THAT U.S. INTENDS TO GO ON BENEFITTING FROM PRESENT ADVANTAGE IN MONETARY VALUE OF ROUTES AS LONG AS POSSIBLE AND HAS NO INTENTION OF CONDUCTING SERIOUS NEGOTIATIONS. ITALIANS SAY THEY HAVE COMPROMISED ON POINT AFTER POINT AND CAN GO NO FURTHER ON SUBJECT OF MULTIPLE DESIGNATION. THEY CITE ALLEGED FAILURE OF U.S. SIDE TO MAKE CONCRETE PROPOSALS TO SANTINI DURING HIS RECENT VISIT AS FINAL STRAW.

3. ITALIANS SEEM FULLY AWARE OF AND RESIGNED TO PROBABLE U.S. RETALIATION IF BEYONDS ARE CANCELLED. THEY REALIZE THAT ALITALIA MAY BE FORECED TO MAKE SEVERE FINANCIAL SACRIFICES AND SAY IT IS PREPARED TO DO SO RATHER THAN HAVE PRESENT SITUATION CONTINUE INDEFINITELY. IF WORST COMES TO WORST, THEY PRERARED TO TAKE THEIR

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CONFIDENTIAL

PAGE 02 ROME 01965 02 1834Z

CASE TO PRESS AND RELY ON INTERNATIONAL PUBLIC OPINION TO VALIDATE JUSTICE OF THEIR POSITION.

4. EMBASSY INQUIRED WHETHER ITALIANS HAD DROPPED IDEA OF APPLYING FOR LOSANGELES ON TEMPORARY BASIS WHILE NEGOTIATIONS CONTINUE AND WAS TOLD ITALIAN SIDELFEELS THIS WOULD ONLY LEAD TO FURTHER LONG STALLING ACTION BY CAB. THEY ALSO APPARENTLY NOT WILLING TO FOCUS AT PRESENT ON POSSIBILITY OF OBTAINING ADDITIONAL ROUTES AS QUID PRO QUO FOR U.S. RIGHT TO ASSIGN ADDITIONAL CARRIERS.

5. COMMENT: IT IS DIFFICULT TO GUESS WHY FOREIGN OFFICE IS GIVING US SO MUCH NOTICE OF ITS INTENTIONS, PARTICULARLY SINCE FINAL ITALIAN GOVERNMENT DECISION HAS NOT BEEN MADE. HOWEVER, BASIC INTENTION IS PLAINLY TO FORCE MATTERS TO A HEAD AND RAISE QUESTION TO STATUS OF A MAJOR POLITICAL ISSUE.

6. WE SHOULD NOT DISMISS ITALIAN STATEMENT AS IDLE THREAT. THEY CAME TO WASHINGTON IN DECEMBER RREPARED TO SIGN WHAT THEYFELT WAS A PRE-NEGOTIATED AGREEMENT AND CONTINUE TO FEEL THEY WERE DOUBLE-CROSSED ON ISSUE OF MULTIPLE DEBIGNATION. SINCE THEN THEY SAY WE HAVE PUT FORWARD NO CONCRETE PROPOSALS FOR RESOLVING THE STALEMATE.
WE ARE CONVINCED THAT SANTINI AND SORO ARE NOT BLUFFING BUT EMBASSY CANNOT JUDGE ULTIMATE DECISION OF COUNCIL OF MINISTERS.

7. UNFORTUNATELY, EMBASSY ASSURANCES OF U.S. DESIRE TO CONTINUE NEGOTIATIONS AS PER REFTEL WERE RECEIVED RATHER SKEPTICALLY ON THIS OCCASION. A GOOD MOVE NOW MIGHT BE FOR U.S. SIDE TO REQUEST AN EARLY DATE FOR RESUMPTION FORMAL NEGOTIATIONS.

8. IF U.S. DECISION IS TO BE TO STAND PAT AND LET MATTER ESCALATE, EMBASSY HOPES THAT IT WILL BE RESULT OF CAREFUL CONSIDERATION OF ALL THE ELEMENTS INVOLVED INCLUDING THE VERY UNWELCOME ANTI-AMERICANISM WHICH A LOCAL PRESS CAMPAIGN ON THIS ISSUE WILL AROUSE, PARTICULARLY WHEN IT IS PICKED UP BY THE COMMUNISTS. IN VIEW OF ESSENTIAL CLOSENESS OF TWO SIDES ON OUTSTANDING ISSUES, IT WOULD SEEM PREFERABLE TO TRY NEW INITIATIVES IF AT ALL POSSIBLE RATHER THAN PERMIT SITUATION TO DETERIORATE TO POINT WHERE AIR CARRIERS OF BOTH SIDES SUFFER SERIOUS FINANCIAL LOSSES.

GP-4. ACKLEY

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